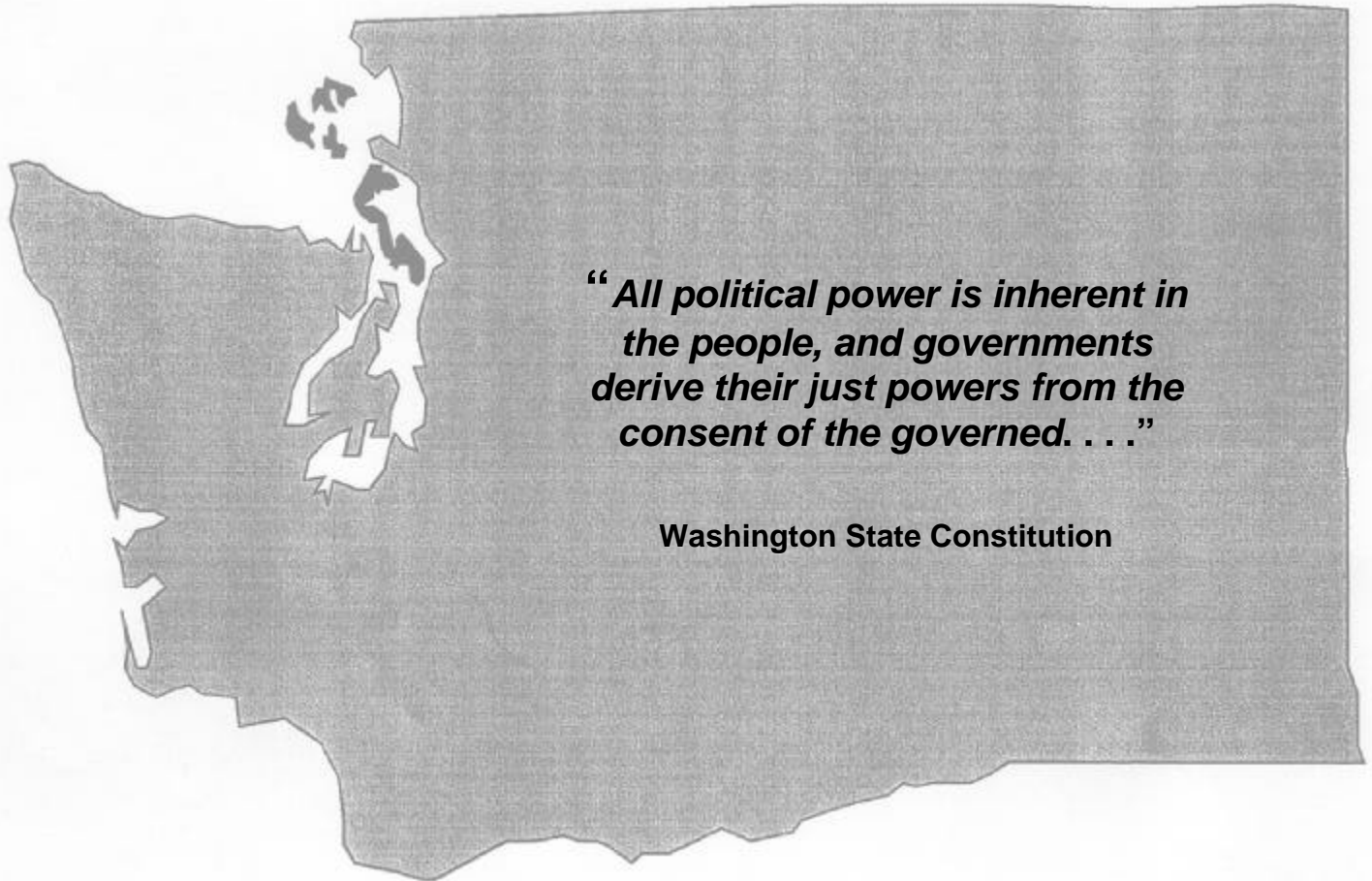


# 1997 Annual Report

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Rooting Out and Preventing  
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Growth of the State Employee  
Whistleblower Program



Washington  
***State Auditor***  
Brian Sonntag

# Thoughts From The State Auditor

January 1998

Citizens of Washington:

I am proud to use our 1997 Annual Report to tell you about the work of the Washington State Auditor's Office. Our work is important. The founding fathers put the responsibilities in the Constitution to serve as the independent check and balance of government.

To serve effectively, we are continuously rethinking how we do our job. While our resources do not increase, the emphasis of our work changes. This shift is designed to add value to the governments we audit and the citizens we serve. I am pleased with where we are headed.

We are targeting fraud in state and local government by looking at the high-risk audit areas where the potential for fraud is high. For example, we are looking closer at cash handling, inventory, purchasing and internal control systems. We have expanded training of government managers as well as our own auditors to both identify and prevent fraud.

We are committed to reporting our work to the public as well as the governments we audit. As part of our commitment, we have undertaken a major transformation of our audit report to provide a more complete, comprehensive picture of the condition of local governments and state agencies. In 1998, our audit reports will be written understandably and contain more useful, relevant information.

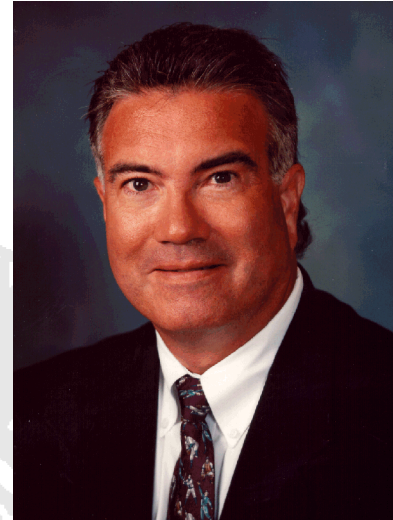
Also, we are moving to reduce the cost of the state government financial audit. We advocated for changes in federal reporting requirements which will enable us to reduce the cost of the statewide financial audit from more than \$1.1 million in the 1996 fiscal year to less than \$400,000 in the present fiscal year.

Finally, our 286 auditors, administrative and support staff comprise a very skilled, dedicated staff. I am proud to work with them to serve you. We hope you find this Annual Report useful.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

BRIAN SONNTAG, CGFM  
STATE AUDITOR

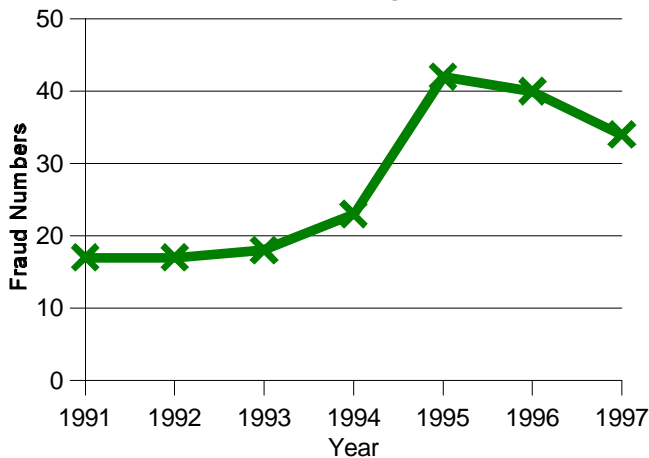


# Targeting Fraud

**W**ith our fundamental responsibility to safeguard public assets, the State Auditor's Office is accelerating our emphasis in rooting out and preventing fraud. We have emerged as a national leader in fraud awareness, detection and prevention.

Our auditing practices exceed national standards in the depth to which we look for conditions that lead to fraud. We have focused our examinations on high-risk areas, such as cash handling and inventory, where the potential for fraud is the greatest. We work with governments to help them identify fraud and make sure monitoring and other controls are put in place to prevent it.

This graph shows the growth in the detection of fraud in state and local governments:



Not only are we finding more frauds, state and local government managers are identifying more instances of misappropriations. We believe this stems from our expanded training of government managers and financial staffs as well as our own staff to recognize "red flags" that indicate potential fraud. Our training program, which is nationally recognized, also focuses on establishing strong controls to prevent embezzlements.

Over the past year, more than 2,200 government managers received training on fraud prevention and detection. We intend to continue expanding this vital training. We currently are developing training classes that address fraud and high-risk areas unique to specific types of government.

Our efforts are paying off. The average number of frauds detected over the past three years has doubled from the previous three-year period, from an average of 19 a year to 39.

**"The most unfair cost to the taxpayers is waste or fraud."**

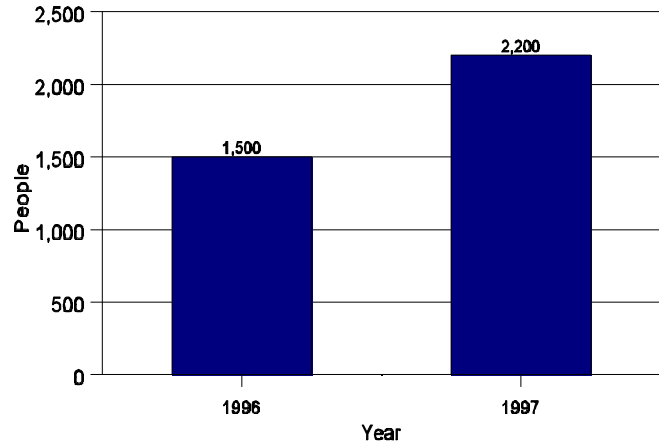
-- **State Auditor Brian Sonntag, in a 1997 speech.**

Embezzlement has cost state and local governments more than \$6.1 million over the past six years. In 1997, nearly \$2 million—the highest ever for a single year—was stolen through fraud.

The reason for the high monetary loss from fraud in 1997 was the detection of several large-scale embezzlements. The other cases were for significantly lower amounts. When the large frauds are excluded, the average loss among state and local governments was about \$7,400. That means these thefts were detected early before additional public dollars are put at risk.

If we can detect fraud early and prevent it from occurring in the first place, then we are providing value to the governments we audit and the citizens we serve.

This graph shows the increased number of people reached through fraud detection and prevention training:



# The Payoff of Our Focus on Fraud

**H**ere are examples of how the heightened awareness of fraud is paying off. They show different ways frauds were detected—one by our auditors, one by a government agency and one by police department investigators.

## Nearly \$500,000 taken from Tacoma Dome

The former assistant operations manager of the Tacoma Dome stole nearly \$500,000 from the city—the largest purchasing fraud in state history. We also questioned an additional \$200,000 in business dealings with a vendor who was in partnership with the manager.

The manager was in a position to falsely authorize purchases of supplies and equipment and receive them. He then authorized payment for the items by signing that the assets had been received. However, they had been kept or sold for personal gain. His unethical conduct coupled with deceptive business practices by vendors created an effective shield to conceal these illegal activities from view for almost a decade.

There are many false documents in city files disguising the fraud and making it virtually impossible for the city or assistant state auditors to detect. The Tacoma Police Department detected this fraud when the manager modified his scheme and began selling stolen assets through Tacoma area pawn shops. The manager subsequently pleaded guilty to theft charges and was sentenced to prison.

## \$350,000 'Lapping Scheme' at Water District

An accounting clerk misappropriated nearly \$350,000 at the Highline Water District in South King County. It was the largest lapping scheme ever detected in the state.

Under the scheme, the clerk stole customers' cash payments and covered the thefts with subsequent payments from other customers. Ultimately more than 4,000 customer accounts were manipulated. She also misappropriated cash payments and substituted the stolen cash with check payments. The clerk wrote off customer accounts without authorization. Since customer feedback went directly to the employee, she was able to conceal these illegal activities for a number of years.

This fraud was detected by the State Auditor's Office while testing the district cash receipting during our 1997 audit. The accounting clerk was a trusted district employee who exercised almost complete control over cash receipting and related accounting functions. Her work was not properly supervised or monitored. The district is taking steps to prevent another fraud, and a case against the clerk is pending.

## Computerized Scanning Led to \$237,000 Theft

The deputy treasurer of the Grant County PUD stole \$236,925 in a sophisticated scheme involving computer equipment. The treasurer issued three fictitious warrants to himself. He used computer equipment, including an optical scanner to forge an authorizing signature on the warrants. He then intercepted the returned checks and manipulated the accounting records to conceal the fraud.

The electrical utility detected the fraud when an assistant found a warrant issued to the deputy treasurer and confronted him. The deputy treasurer has pleaded guilty to the theft, and his sentencing is pending. The utility, meanwhile, has established monitoring controls to guard against future frauds.

# Making Audit Reports Useful . . . Relevant . . . Readable . . .

**R**eporting our work is as important as doing our work. Audit reports are the critical product to carry out that responsibility. They have a dual purpose:

- They are management tools for governments to use in improving their operations.
- They are reporting tools for citizens to assess government performance.

For the most part, the content and format of our audit report has not changed in 30 years. While they have served a valuable purpose, improvement is needed. So during 1997, we have been working on a complete overhaul of our reports to make them more useful both to governments and the public.

When the transformed audit reports are put to use in the early part of 1998, they will present a more complete, comprehensive picture of the financial condition of a state agency or local government. They will contain additional information, such as specific audit areas we reviewed, to make them more comprehensive and useful.

Audit findings often are a focus point of the report, they are there for a reason. They are intended to constructively describe conditions that need improvement and to recommend solutions. But areas where improvement is needed sometimes is only part of the story. To provide better perspective and balance, the new reports will contain discussions of what a government did right as well as recommendations for improvement.

The reports will be clearer and more readable. We have developed a training program designed to improve the already good writing skills of our audit staff.

The transformation of the audit report will reflect considerable change and significant improvement.

[www.wa.gov/sao/](http://www.wa.gov/sao/)

**T**he State Auditor's Office Website, begun in September 1996, has proven to be a vital tool to communicate the work we do. It continues to evolve and grow. The site has had nearly 27,000 hits since its inception, and we are continually updating the material so that it remains valuable for users.

You can find information about us. Our audit reports can be obtained there. Even this 1997 Annual Report is located on the Website.

One of the recent additions to our home page is a section for Requests for Proposals (RFPs). From time to time the State Auditor's Office contracts for audit services from private CPA firms during times of heavy work load or when a specific type of auditing experience is required. We weren't always able to reach as many prospective firms as we liked under traditional means of posting RFPs. By posting these requests on our Internet site, more firms can be reached with the information. Now, CPA firms that are interested in bidding for contracted audit

work can periodically check the electronic postings and see all the details of a given project.

The success of our Home Page is shown in E-Mail messages we received:

"I have just had a chance to look at your web site. My compliments! There is a wealth of information. I have already let my staff know of the site for reference."

"This is one of the best jobs of webpage construction yet. And I have been to a lot of them."

"Please pass along my "kudos" for a very terrific home page. I have just visited for the first time and will be back OFTEN!"



# CPA Contracting: A Partnership That Works

**O**ur contracts with CPA firms to perform some of our audit work is a public-private partnership that works well. We presently contract with CPAs in auditing governments when it is more efficient or effective to do so. Since 1995, nearly \$14 million in audit work has been awarded to private firms. Before the end of the 1999 fiscal biennium, we expect to award \$900,000 more work.

In keeping with our constitutional responsibilities, we maintain full responsibility, oversight and review for any work done under contract. The Constitution entrusts us with the duty to serve as the auditor of all public accounts. That means the elected Auditor is directly accountable to citizens for reviewing every tax dollar spent by state agencies and local governments, including school districts.

Because it is critical that audits of public funds be done independently and objectively, we must

retain discretion to determine when contracting makes sense.

We believe it makes good business sense to use private business firms when we can. We use them to examine financial statements and other accounting-related work. Most of the private CPAs' experience is in financial statement auditing. That provides us the opportunity to put more emphasis on legal compliance auditing and looking at high-risk areas most vulnerable to misuse or fraud.

Most of the contracts with CPA firms are for financial statements of hospital districts, public utility districts, ports and other governments that are more business-oriented financial operations. That is more compatible with the type of auditing done by CPA firms. We also use CPAs to assist our assistant auditors in performing individual audits, particularly at peak times when the audit workload is heavy.

## A Move to Make Financial Data More Accurate and Accessible

**G**etting accurate financial information into legislative hands quickly is a key to good public policy decisions. A major project now underway will achieve that.

At the heart of the project is a significant upgrading of the Budgeting, Accounting and Reporting System (BARS), administered by the State Auditor's Office. Established by state law, the system has served as the compendium of local government revenues and expenditures for 12 years. We collect local government fiscal data from their BARS reports, compile it and published it annually in the Local Government Comparative Statistics (LGCS) report.

Clearly, major improvements are needed to the old system. Since cities and counties have flexibility under BARS to maintain financial information differently, local government finances are reported to BARS inconsistently. This puts the reliability of the information in question. In addition, the BARS database is not compatible with the Legislature's system and does not lend itself to rapid computerized analysis needed for effective decision-making.

In 1997, the Legislature authorized an upgrade to BARS. Subsequently, we have been working with local government managers and finance officers, county and city association representatives and the Legislative Evaluation and Accountability Program (LEAP) Committee to improve the reporting of and access to the local government fiscal data.

Improvements expected as a result of this project include a process to validate data reported by local governments and make the reporting consistent. The project also will provide the information in a form so it will be immediately accessible to policy analysts.

Meanwhile, we have taken steps to improve the accuracy of local government fiscal data in advance of the project. We increased training to local governments and launched a preliminary verification process to increase data accuracy in the interim.

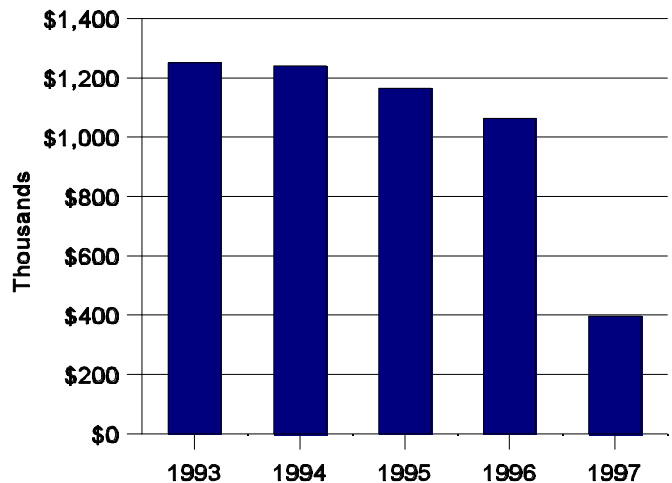
# REDUCING THE COST OF AUDIT

**T**he cost of auditing Washington state government's federally funded programs is coming down significantly. The audit that cost more than \$1 million in the 1996 fiscal year will be less than \$400,000 during the current 1997 fiscal year.

*How did we accomplish that?* A major part of the reason was 1996 federal legislation, which we helped initiate and strongly advocated. Congressional approval of amendments to the federal Single Audit Act changed audit requirements, which have been a condition of the state receiving federal grants.

During the 1997 fiscal year, state government received more than \$4.8 billion in federal grants to administer about 600 various programs and services, ranging from lung disease research to welfare aid. As a condition for funding, the federal government requires the State Auditor's Office to conduct a Statewide Single Audit of state government.

This table shows the dramatic decrease of the cost of the Statewide Single Audit of federal programs:



## A Model Performance Audit: State Investment Board

In 1996 and 1997, the State Auditor's Office oversaw a comprehensive performance audit of the Washington State Investment Board. The audit became a model of what a constructive performance audit can achieve.

At the request of the State Treasurer, the Legislature authorized the State Auditor to administer the audit of the investment program and practices of the Investment Board. The State Auditor subsequently sought outside expertise and contracted with Independent Fiduciary Services, Inc., a Washington, D.C.-based firm which specializes in evaluating investment programs and portfolio management. The audit began in July 1996 and a report was issued in April 1997.

The audit concluded the Board's investment program and practices were fundamentally sound, and generally met or exceeded industry standards. But it made numerous recommendations on the structure of the board, policies related to allocating assets among various investments, and reporting investment returns to stakeholders.

The audit became a model for other proposed performance audits. It was a comprehensive, top-to-bottom review. It was independent and objective. And it brought in specialists who were experts in investment management.

Before amendments to the Single Audit Act, we were required to audit thoroughly all federal programs that spent more than \$13 million and perform preliminary reviews of programs of less than \$13 million. Performing the work called for more than 20,000 hours of time from several teams of assistant state auditors.

But the changes to the Single Audit Act specified a "risk-based" auditing approach, which focused on selecting programs and audit areas with the highest potential for misuse of resources. That approach aligns with the direction of our audits of state agencies and local governments.

The changes allow us to have one audit team to plan, coordinate and perform the audit of the state's financial statements. We also integrate our review of aspects of Statewide Single Audit with our examination of state agency legal compliance.

Part of the reduction will result in direct savings to the state in audit costs. We also are able to devote more resources to look at high-risk areas in agencies and to conduct a select number of economy and efficiency audits, a form of performance auditing.

# Employee Whistleblower Program:

**T**he State Employee Whistleblower Program continued in 1997 to be a vital means for state employees to report assertions of possible improper governmental action.

During fiscal year 1997, the State Auditor's Office received 292 assertions of improper governmental action. Ninety-five of these assertions were substantiated.

Because the main objective in administering the whistleblower program is to reduce improper governmental action, we are pleased with these statistics. While the figures represent a decrease from last year of the number of assertions received, there is an increase in the percentage of assertions which were substantiated. We believe the statistics show that as state employees learn more about the program, the assertions are becoming more substantive.

A valuable benefit from the whistleblower program is the number of inappropriate government activities which lead to broader recommendations to improve agency operations. Because this office is dedicated to accountability of public funds, we see the whistleblower program as one more method of achieving this goal.

State law (Chapter 42.40, RCW) established the State Employee Whistleblower Program in 1982 to encourage the disclosure of improper governmental actions by state employees while performing their official duties. It is administered by the State Auditor's Office.

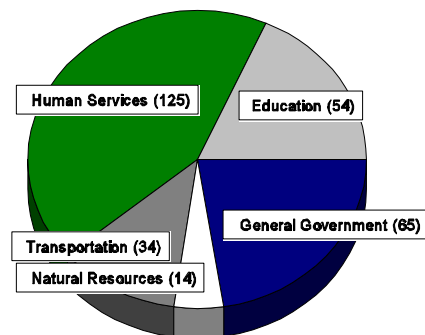
A state employee wishing to file a whistleblower complaint may either disclose their identity or remain anonymous. We investigate both anonymous and named whistleblower assertions with the same thoroughness. In 1997, 45 percent of whistleblower assertions investigated by this office were anonymous.

Based on issues we identified during our investigations over the last 18 months, these are things agencies can do to prevent the necessity for whistleblower disclosures:

- ✓ Establish a culture where employees feel they can approach management with concerns about potential improper governmental actions.
- ✓ Provide comprehensive training in the state's ethics code.
- ✓ Provide training in the state's contracting requirements and management practices.
- ✓ Inform state employees of state laws concerning travel regulations.

## ASSERTIONS BY FUNCTIONAL AREA OF GOVERNMENT FISCAL YEAR ENDING JUNE 30, 1997

This chart shows the number of assertions reported to the State Auditor by area of government:





# A Valuable Tool to Make Government Better

Whistleblower assertions reported to us during the 1997 fiscal year fall into four general categories—contracting, abuse of pay and time, ethics violations, misuse of public resources. These are some examples of assertions:

## Contracting

- An agency did not follow regulations concerning competitive bidding for a project.

## Pay/time abuse

- A retired public employee worked for a state agency in excess of the time allowed for a retired employee collecting a pension.
- An agency improperly paid an employee approximately \$18,000 while he was on administrative leave, after which he retired from state service.
- A maintenance employee claimed hours worked when he was not at his assigned work site.

## Ethics in Public Service

- An agency authorized an employee to use a state-owned vehicle to commute from home to work.
- An assistant vice president of a university took personal business trips to Princeton while still on university time.

- Mechanics conducted their own business in state facilities. They worked on various private aircraft and vehicles. There also was misuse of the state telephone and hangar office by non-state individuals.
- The dean of a college was reimbursed for entertainment and other expenses which were questionable as to the university's purpose.
- A program manager at a community college used state money to pay for child care for her grandchild, used grant money for personal purchases, used the SCAN telephone system for personal use and the college paid for part of her master's program education.
- An employee of the school of music at a university used university facilities and equipment during official working hours to privately tutor students.

## Public Assets

- An assistant professor used university facilities in connection with compensated outside professional services without administrative approval or reimbursement to the university.
- Controls were not adequate to ensure utility bills were being properly paid by a university's department or that departmental recharges of these costs were accurate. When overpayments occurred, they were not caught in a timely manner.

This table summarizes assertions brought to us under the State Employee Whistleblower Program over the past five fiscal years:

	FYE 93	FYE 94	FYE 95	FYE 96	FYE 97
<i>Anonymous</i> assertions received	51	62	117	157	130
<i>Anonymous</i> assertions substantiated	15	17	21	38	32
Percentage of <i>anonymous</i> assertions substantiated	29%	27%	18%	24%	25%
<i>Total</i> assertions received	116	237	245	377	292
<i>Total</i> assertions substantiated	28	76	49	101	95
Percentage of <i>total</i> assertions substantiated	24%	32%	20%	27%	35%



# Washington's Public Schools:

**T**he state's public education system continues as one of our highest audit priorities. The system serving students from kindergarten through high school spent more than \$5.5 billion dollars in the 1996-97 school year, with the state-funded portion encompassing nearly one-half of the state's annual budget.

Overall, our reviews in 1997 found that public schools in Washington maintain adequate controls over funds they received. The vast majority of the state's 296 school districts complied with applicable laws and regulations as well as requirements of federal grant funding. In fact, 180 of the 200 districts audited in 1997—90 percent—had one finding or less, and 72.5 percent of the districts had no findings. Only four school districts had three or more findings.

In keeping with our risk-based approach, we are focusing on the areas with the highest potential for irregularities. So our auditors are spending less time than before in district business offices and more time in school buildings where cash is handled and other transactions take place. A trend among school districts has been to push authority over budgets, purchasing and other responsibilities to individual schools and less from central headquarters. We view our audit approach as an opportunity to help schools improve in areas where they are most at risk. We are coupling our audit work with technical assistance and training to help schools prevent potential problems from starting.

The issues we found during 1997 audits of schools for the most part fell in two areas:

-  **Control over Associated Student Body (ASB) funds and the handling of ASB cash.** While this represents a small area of a school budget, ASB funds is the area where public dollars are most susceptible to loss and even fraud.
-  **School district reporting of enrollment and the computation of staff education and experience, the so-called staff mix formula.** Enrollment and staff mix are the primary factors in determining state funding of schools.

## ASB Funds: Public Dollars at Risk

Even though ASB funds comprise a small part of a school's budget, they are public money. And they are most in need of protection. The numerous ways they are collected—through activity fees paid by students, cookie sales, student stores, athletic ticket sales, car washes—makes the funds vulnerable to loss or misappropriation. Strong controls, cash-handling policies and procedures needed to provide proper checks and balances, must be in place.

The major issue identified in our findings has been the lack of a segregation of duties. That means the same person who collects the funds also deposits them and often reconciles the ASB checking account. In that environment, public funds are at risk. We strongly encourage every district to formally adopt the controls recommended in the ASB Procedures Manual, which was prepared by the Washington Association of School Business Officials (WASBO) in conjunction with the State Auditor's Office.

## Enrollment and Staff Mix: Basis of State Funding

State-supported funding of school districts is based partially on the number of students enrolled and on the experience and training of the district's certificated staff. In order to receive state funds, districts must periodically count students attending school and accurately report enrollment to the Office of the Superintendent of Public Instruction. They also must maintain records and report the level of education and experience of staff.

In districts where enrollment reporting inaccuracies were found, inadequate supporting documentation for students who were counted was noted. In addition, some students were counted in more than one enrollment category (e.g., special education as well as a regular student count).

In districts where staff mix errors were found, the circumstances mostly were inadequate verification of data used to calculate the staff mix factor. Our recommendation to these districts has been to implement procedures necessary to ensure accurate information is reported for state funding.

# A Good Audit Record

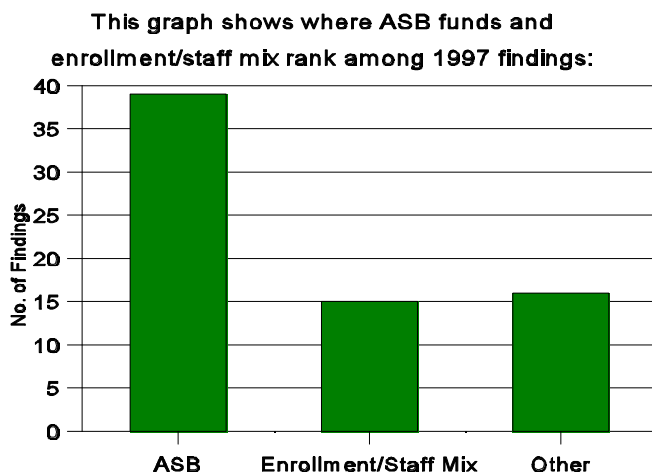
## Audits of Special Education Programs

At the direction of the state Legislature, we have been auditing special education programs among many of the state's school districts. Lawmakers handed us the assignment to review districts which had certain conditions in their special education programs. Those conditions included high rates of growth, rising costs and other factors that raised concerns from a state special education oversight committee. The oversight committee is responsible for administering a state special education "safety net" designed to provide additional funding for districts that need it.

During 1996-97, our team of special education specialists performed audits of nearly 20 districts. We found that school districts generally are providing appropriate and adequate special education programs for their students. However, we found some issues related to the lack of maintaining and updating individual education programs (IEP) for special education students as required.

We identified instances of districts counting students for special education funding without meeting the requirements for completing annual IEPs and without conducting an evaluation of the students' progress every three years. To be eligible for state special education funding, districts must meet those requirements.

We also found that some students were being counted as needing special education funding when they were placed in regular classrooms and were merely monitored instead of being given individualized special education instruction.



## A Proposal to Pare Back Audit Costs to Schools

We are working to reduce audit costs for school districts. We have submitted a proposal to the federal government to look at federal grant requirements from a statewide perspective rather than auditing it at every school district. If approved, our approach will provide a statewide savings of about \$1 million for school districts to share in. It also will save districts time by reducing reporting requirements.

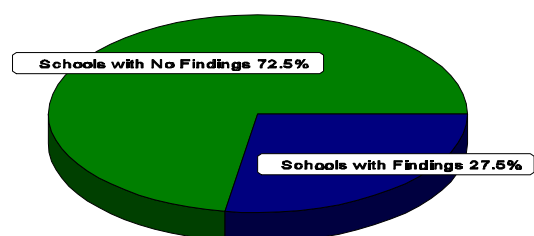
Our proposal would be a significant departure from the standard approach to auditing grants on behalf of the federal government. We proposed replacing nearly two hundred individual audit reports related to school district management of federal grants with one audit of the entire school system's management of federal grants in the state. We believe this approach will allow us to provide a better audit for the federal government. We also will be able to make better use of all of the information we know about the state's school system and audit both more effectively and efficiently.

## PREVENTION

We are taking steps to help school districts improve their operations.

- We conducted a series of training sessions for school staff related to ASB funding, enrollment reporting requirements and a variety of other subjects. This training is intended to head off potential problems.
- We worked with the Washington Association of School Business Officials to produce a "how-to" manual for school office professionals and other staff to use in handling and accounting for ASB funds.
- Our staff is available for technical assistance before and after an audit, not just when our auditors are at a school site. Again, our aim is to prevent problems.

This graph gives a comparison of districts with findings and those without for 1997:



# Washington's Counties: Increasing Demands With Limited Resources

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**W**ashington's counties generally continue to struggle with increasing demands for services with limited resources. While revenues for some county governments kept pace with expenditures, many other counties faced dwindling resources to face mounting challenges.

In this environment, our audits of county governments found they remained on stable financial footing. But we also identified areas of concern over the past year.

In 1997, we audited 30 counties, with 24 sharing in 76 audit findings. Six counties—Benton, Pierce, Klickitat, Clark, Thurston and Skagit—had no findings. Under our risk-based approach, our audits focused heavily on such areas as payroll, cash receipting, inventories and receivables. Those areas have a high potential for irregularities. We also focused our attention on property tax assessments and county fairs.

## Spokane County Acts

After we identified inadequate policies and procedures necessary to safeguard cash collections in Spokane County, the County Commissioners decided to strengthen internal controls and fix the weaknesses. The county assigned the internal auditor to take responsibility for strengthening controls. We also provided training on cash handling and prevention and detection of fraud to more than 200 employees and administrators, including some elected officials.

One of the more predominant areas of concern is how cash is collected and deposited. Some counties lack adequate internal controls over cash receipts. Without policies and procedures, public funds have a higher risk of being unaccounted for properly and even stolen. The risk is heightened because many cash collection points are located in facilities away from county courthouses.

Because of the decentralized cash handling, counties need to assign responsibility centrally to coordinate and monitor cash collections and deposits. They must ensure cash handling duties are segregated, funds are properly receipted, recorded and deposited in tact.

Some of the most frequent findings in our audits of county governments:

- Weak internal controls generally over cash receipts.
- Inadequate processing and record keeping of payroll.
- Weak accounting controls over purchasing, inventories and disposal of fixed assets.
- Bookkeeping problems in the court systems.
- Not meeting requirements of federal grants.
- Failure to meet required deadlines for filing annual financial reports.
- Inadequate controls over cash handling at county fairs.
- Insufficient record keeping of police citations.

## County Road Funds:

To stretch limited revenues, some counties are starting to divert funds designated for county roads to help finance other needs. State law is clear in restricting county road funds for construction and maintenance of county roads. Diversion of these funds for general courthouse needs, such as criminal justice or elected officials salaries, is not allowed.

In examining counties, we found that several counties were recently diverting a portion of road funds for other purposes. We have been working with county representatives and officials from associations representing counties to identify appropriate uses of road funds. We will continue working together to help counties meet their statutory requirements and also meet the needs of their citizens.

# Cities and Towns

**W**ashington's 277 cities and towns are a diverse lot, in their size, in their structure, and in the services they provide. They range from large urban municipalities with large, complex financial systems to small rural towns with few staff and where controls over revenues are difficult to maintain with one person.

Despite the risk the assorted characteristics pose to municipal financial systems, cities and towns generally were in good financial shape during 1997. Of the 152 audits we conducted, 94 municipalities —62 percent—had clean audit reports without findings. Cities overall were good stewards of their resources and complied with required local, state and federal laws, regulations and policies.

This table lists some of the most frequent findings reporting in our audits of cities and towns:

- Internal control weaknesses over collecting, recording and handling cash receipts.
- Inadequate processing and record keeping of payroll.
- Failure to properly track police traffic citations.
- Not complying with federal grant requirements.
- Insufficient general accounting practices such as bookkeeping and financial reporting.
- Use of funds budgeted for one specific purpose for another purpose without authorization.
- Lack of accounting controls over fixed assets.
- Misappropriation of funds.
- Inadequate bookkeeping in municipal courts.
- Failure to meet deadlines for filing annual financial reports.

We did identify some issues requiring improvements. In our 1997 audits, we issued 121 findings shared by 58 cities and towns.

Cash receipting and disbursements, which are areas with a high potential for abuse, was a major focus of our 1997 audits. We also looked at certain city departments or functions for examination. For example, we evaluated internal controls at municipal courts and local improvement districts (LIDs).

Like other local governments, weak internal controls over cash receipting was among the most common issues we identified among cities and towns. We found that duties related to collecting, receipting, recording and depositing cash were not segregated. The ability to segregate duties can be difficult to accomplish, particularly for small cities and towns with few employees. But dividing employee duties for cash receipting provides proper checks and balances against theft.

We found control weaknesses among some city police departments in accounting for traffic citations. We recommended to those municipalities that procedures be put in place to properly record citations and track them through to resolution. We also identified payroll issues relating to prevailing wages and tracking employee leave. And we found cities need improvement in meeting federal grant requirements.



# Washington State Auditor's Office Contacts

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Olympia Team, Connie Robins, Audit Manager ..... (360) 586-2985

Port Orchard Team, Mark Rapozo, Audit Manager ..... (360) 876-7069

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